EUROPEAN FREE TRADE ASSOCIATION

Ref. 32331

19 December 2012

EFTA Secretariat – Financial reports 2011

This document includes the following:

1. Excerpt from the Council summary record of 6 November 2012
2. Letter from EFTA Board of Auditors (EBOA) on Audit of the 2011 Accounts
3. Audit Report – EFTA Secretariat
4. Statement of Account 2011
5. Letter from the Chair of the Council to the Chair of EBOA, 11 July 2012

Ref. 31959

4 December 2012

EIGHTH MEETING OF THE COUNCIL

Geneva, 6 November 2012

SUMMARY RECORD

Statement of account for 2011

1. The Council noted the letter from the Chair of the Budget Committee recommending the approval by the Council of the accounts for 2011, ref. 31867. The Council approved the Statement of account for 2011, ref. 1105978, and discharged the Secretary-General of his responsibilities for the financial period in question.

EUROPEAN FREE TRADE ASSOCIATION

BOARD OF AUDITORS

The Chairman

EFTA ref.1115079
14/2012
25 June 2012

Audit of the 2011 Accounts

At their last meeting in Brussels on 4 and 5 June 2012, the Members of the EFTA Board of Auditors (EBOA) reviewed the accounts of the **EFTA Secretariat** covering the period 1 January to 31 December 2011.

On the basis of the audit report and the management letter from the mandated external auditor, BDO, EBOA has decided to issue a certificate for the 2011 accounts.

EBOA would like to convey BDO's satisfaction with the EFTA Secretariat's cooperation.

In accordance with Financial Regulations 14.4 and 15.6 the Board has given the EFTA Secretariat the opportunity to comment on the matters raised below. The Board has taken such comments into consideration.
EBOA would like to bring the following matters to the attention of the EFTA Council:

1. **Savings Fund**

According to the Financial Statement the Savings Fund is based on defined contribution from the association and its staff members. The Savings Fund is not included in the association's Financial Statement. The report by BDO points out an element of uncertainty regarding the liability for the Savings Fund in the case of changes in the value of these assets, and that no provisions have been made in the Financial Statement for such liability. EBOA would like to continue to stress the importance of harmonisation in the

H. E. Mr Luzius Wasescha
Ambassador
Permanent Mission of Switzerland to EFTA and WTO
Rue de Varembé 9-11, Case postale 107
1211 Geneva 20
Switzerland

CC: Kåre Bryn, Secretary General, EFTA Secretariat way in which the EFTA institutions handle this matter both in how the issue is dealt with in the financial statements and how the employees affected are informed of the risks. EBOA takes note of the EFTA Secretariat's efforts to inform staff on saving options and risks.

2. Compliance with IFRS

EBOA notes with satisfaction that the Financial Statements have been presented in compliance with the International Financial Reporting Standards (IFRS). There remains one exception:

- Not all disclosure notes and presentation requirements as prescribed by the IFRS have been included.

3. IPSAS to be considered

EBOA notes that the EFTA Secretariat is close to full compliance with IFRS. However the IFRS are more suited to businesses and a further compliance may incur further costs for the institute without added value. EBOA therefore encourages the EFTA Secretariat to consider the International Public Sector Accounting Standards (IPSAS) which are widely used by intergovernmental organisations.

4. Harmonisation of the EFTA Institutions' Financial Statements

In its audit letter regarding the 2009 accounts, EBOA urged the three EFTA institutions to reach an agreement on a harmonised format for their financial statements for the sake of clarity and transparency.

EBOA notes with satisfaction the progress made by the EFTA Secretariat together with ESA on a harmonised format of the financial statements. EBOA encourages the Heads of Finance to continue working on the harmonisation.

5. Six year rule of employment

EBOA notes the different applications of the six year rule of the Staff Regulation on employment by the EFTA Institutions. While EBOA does understand the need to extend contracts beyond six years "in the benefit of the institution", EBOA suggests that a written explanation should be provided with each extended contract.

6. IT system security risk

EBOA notes the Secretariat's plan to establish an IT security policy and encourages the Secretariat to consider an external evaluation of the overall IT system.

Respectfully yours,

Hans Conrad Hansen

Hans Conrad Hansen
Chairman of the EFTA Board of Auditors

EUROPEAN FREE TRADE ASSOCIATION

5 June 2012

EFTA ref. 1114517
EBOA 11/2012

1 Annex

Distribution Special

AUDIT REPORT - EFTA SECRETARIAT

CERTIFICATE OF THE BOARD OF AUDITORS ON THE AUDIT OF THE ACCOUNTS OF THE EFTA SECRETARIAT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2011

1. The Board of Auditors has examined the accounts of the EFTA Secretariat for the period 1 January to 31 December 2011 as outlined in its Rules of Procedure and the Terms of Reference of the Financial Regulations. The audit is carried out according to generally accepted auditing principles and standards, including such tests and other supporting evidence as considered necessary. The audit work has been performed by BDO on behalf of the Board of Auditors on basis of the contract between the two parties.

2. The Board has reviewed the transactions reflected in the books and have controlled whether these are in accordance with the Financial Regulations and Rules. The various items on the Balance Sheet have been checked and monies on deposit in banks have been verified. Other assets and liabilities as presented in the Balance Sheet have been verified by procedures considered appropriate under the circumstances. The examination of expenditures and income has been carried out on a test basis to the extent considered necessary.

3. The EFTA Board of Auditors states that:

   (a) the financial statements give a true and fair view of the financial position as at the end of the period and the results of the operations for the period;

   (b) the financial statements were prepared in accordance with the stated accounting principles;

   (c) the accounting principles were applied on a basis consistent with that of the preceding financial year;

   (d) transactions were in accordance with the Financial Regulations and Rules of the Secretariat.

SIGNATURES OF THE BOARD OF AUDITORS

Hans Conrad Hansen (Norway) Member	Ingi K. Magnusson (Iceland) Vice-Chairman
Heinz Vogt (Liechtenstein) Member	Arthur Taugwalder (Switzerland) Member

Annex: Auditor's Report by BDO including the Financial Statement for the EFTA Secretariat for the year ended 31 December 2011

Distribution: EFTA

Ref. 1105978

28 March 2012

Statement of Account

Financial Year 2011

Note by the Secretariat

I. Preface to the financial statements

1. In accordance with Financial Regulation 14, the Secretary-General shall submit the final accounts for the period just ended to the Council as soon as practicable following the close of the period, and no later than three months after the end of the financial year in question.

2. The EFTA Board of Auditors is entrusted with the audit of the accounts. The Board's external auditor, the international auditing firm BDO, performed its audit of the accounts for the financial year ending 31 December 2011 between 5 and 9 December 2011 (interim audit) and between 12 and 16 March 2012.

3. Once the EFTA Board of Auditors has received the audit report from BDO, the Board will report back to the EFTA Council. This shall be no later than six months after the end of the financial year in question.

4. For any further information about EFTA's activities during 2011, reference is made to the Performance and Budget Report 2011, ref. 1112525.

II. Mission/main activities

5. The tasks of the EFTA Secretariat consist of assisting the Member States in the management and monitoring of: (i) the relationships between the EFTA States on the basis of the EFTA Convention; (ii) the worldwide network of free trade and partnership agreements between EFTA States and non-EU countries; and (iii) the European Economic Area (EEA) Agreement, which enables Iceland, Liechtenstein and Norway to participate in the EU's Internal Market.

6. The servicing of the EFTA Council and its committee structure is carried out with the support of the Secretariat in Geneva. In 2011 the EFTA Council met eight times at official level (Heads of Permanent Delegations to EFTA in Geneva) and twice at ministerial level. Liechtenstein held the EFTA Chair during the first six months and Norway for the second six months of the year.

7. In the area of free trade relations, comprehensive support is provided by the EFTA Secretariat's Geneva headquarters to Member States in the preparation and negotiation

of free trade agreements and declarations on cooperation, as well as in the implementation of such agreements through joint committees.

8. Under the EEA Agreement, the main body of work consists of monitoring the preparation of legislation and policy on the EU side with a view to giving timely input, and preparing for the incorporation of relevant legislation into the EEA Agreement. The Secretariat services committees and working groups under the Standing Committee of the EFTA States and the EEA Joint Committee.

9. The EFTA Statistical Office in Luxembourg coordinates EFTA's cooperation with Eurostat and provides statistical support for various other EFTA purposes.

III. Review of financial results

10. The budget for the period 1 January to 31 December 2011 was adopted by the EFTA Council on 7 February 2011 in Decision no. 1 of 2011 (ref. 27555). The approved net budget for the financial year 2011 totalled EUR 11,009,000 and CHF 8,462,000 on the basis of which the contributions from Member States were determined and set out in Decision no. 2 of 7 February 2011 (ref. 27556).

11. The financial year 2011 was the eighth year with the new budgeting method as decided by the EFTA Council on 17 December 2003 in Decision no. 7 of 2003. The activities of the Secretariat are defined in the Performance Plan for the budget year 2011 (ref. 26326).

12. The total expenditure (Part I and Part II) for the financial year ending on 31 December 2011 was CHF 22,906,407 (CHF 24,646,456 in 2010) against a total income of CHF 24,405,656 (CHF 25,969,034 in 2010), leading to a budget surplus of CHF 1,499,249 before financial items (CHF 1,322,578 in 2010). Adding other items, i.e. write-offs, interest income, realised and unrealised exchange rate differences and bank charges, having a revenue effect of CHF 80,679 (CHF 83,981 in 2010), the end surplus amounts to CHF 1,579,929 (CHF 1,406,559 in 2010).

13. The net results of Part I and Part II are as follows:

a) The net expenditure in Part I was CHF 19,770,202 or 96.2% of the budget (CHF 20,819,050 or 96.1% in 2010). The total spending resulted in a surplus of CHF 770,905 (CHF 855,961 in 2010).

b) The net expenditure in Part II was CHF 2,303,976 or 74.0% of the budget (CHF 2,789,780 or 83.7% in 2010) resulting in a surplus of CHF 809,024 (CHF 550,598 in 2010).

14. The surplus is due to less spending than foreseen, both in Part I and Part II. The possibility of a surplus, and how to deal with it, is foreseen in the Financial Regulations of the Association (see Regulations 10 and 11).

The overview of the actual expenditure and budget in CHF is as follows:

	Budget 2011	Actual 2011	%	Remainder	%
Part I	20,541,107	19,850,882	96.6%	690,225	3.4%
Part II	3,113,000	2,303,976	74.0%	809,024	26.0%
Total Expenses as Budgeted:	**23,654,107**	**22,154,858**	**93.7%**	**1,499,249**	**6.3%**
Add Reimbursed Expenses	776,348	751,549	96.8%	24,799	
Total Expenses	**24,430,455**	**22,906,407**	**93.8%**	**1,524,048**	**6.2%**
Part I					
Contributions	20,541,107	20,541,107	100.0%	-	0.0%
From Surplus Account		-		-	
Part II					
Contributions	3,113,000	3,113,000	100.0%	-	0.0%
From Reserve Fund Part II				-	
Total Income as Budgeted:	**23,654,107**	**23,654,107**	**100.0%**	**-**	**0.0%**
Add Reimbursements	776,348	751,549	96.8%	24,799	
Total Income	**24,430,455**	**24,405,656**	**99.9%**	**24,799**	**0.1%**
Net Result Before Financial Items	-	1,499,249		(1,499,249)	
Financial Items, Net	-	80,679		(80,679)	
RESULT 2011	**-**	**1,579,929**		**(1,579,929)**	
Transferred from Reserve Funds		**30,450**			
Net Surplus to Member States		**1,610,379**			
BREAKDOWN PART I/II					
Total Part I	20,541,107	19,770,202	96.2%	770,905	
Contributions	20,541,107	20,541,107	100.0%	-	
Net Part I	-	770,905		(770,905)	
Total Part II	3,113,000	2,303,976	74.0%	809,024	
Contributions	3,113,000	3,113,000	100.0%	-	
Net Part II	-	809,024		(809,024)	
TOTAL 2011	**-**	**1,579,929**		**(1,579,929)**	
PERFORMANCE & BUDGET REPORT					
Total Expenses	24,430,455	22,906,407			
Deduct Reimbursed Expenses	(776,348)	(751,549)			
Financial Items, Net	-	(80,679)			
TOTAL PERFORM. & BUD. REPORT	23,654,107	22,074,178[1]			

[1] Due to rounding this figure is shown as 22,072,000 in the Performance and Budget Report.

IV. Distribution of financial result

15. The financial year 2011 resulted in a surplus of CHF 770,905 in Part I and a surplus of CHF 809,024 in Part II, giving a total surplus of CHF 1,579,929. The breakdown of the result per duty station and its distribution between the Reserve Funds and the Member States' Surplus Accounts are shown in the table below (details in notes **Error! Reference source not found.** and **Error! Reference source not found.**):

	Result 2011	**Distribution of result 2011**	
	CHF Cons.	Reserve Funds	Member States' Surplus Accounts
Part I	770,905	-19,890	790,794
Part II	809,024	-10,561	819,585
Total	1,579,929	-30,450	1,610,379

The Financial Statements and notes thereto are contained in the following pages.

28 March 2012,

Kåre Bryn
Secretary-General

Financial Statements as at 31/12/2011

Statement of Financial Position

Financial year ending:		31/12/2011			31/12/2010			
	Note	Cons. CHF	*Geneva* ***CHF***	*Brussels* ***EUR***	Cons. **CHF-2011 exch rate**	*Geneva* ***CHF***	*Brussels* ***EUR***	Cons. **CHF-2010 exch rate**
ASSETS								
Current assets								
Cash	4	**8,069,463**	*3,502,842*	*3,309,146*	**6,575,217**	*3,065,416*	*2,543,334*	***6,903,816***
Receivables	5	**1,233,374**	*411,693*	*595,421*	**1,207,376**	*232,148*	*706,687*	***1,298,680***
		9,302,838	3,914,535	3,904,567	**7,782,593**	3,297,564	3,250,021	**8,202,496**
Long-term assets								
Fixed assets	7	**397,372**	*100,571*	*215,073*	**470,405**	*160,920*	*224,264*	***499,380***
Fixed assets FMO	7	**527,820**	-	*382,479*	**162,434**	-	*117,706*	***177,641***
Building Brussels	7	**330,574**	-	*239,547*	**495,861**	-	*359,320*	***542,286***
Receivables	5	**83,367**	*30,647*	*38,203*	**83,267**	*30,545*	*38,205*	***88,203***
		1,339,133	*131,218*	*875,301*	**1,211,967**	*191,465*	*739,494*	***1,307,510***
Total assets		**10,641,971**	***4,045,753***	***4,779,868***	**8,994,560**	***3,489,030***	***3,989,515***	***9,510,006***
LIABILITIES								
Current liabilities	10							
Payables and provisions	10	**1,239,608**	*145,402*	*792,903*	**1,486,908**	*701,570*	*569,085*	***1,560,434***
Unearned revenues	10b	**87,439**	*2,627*	*61,458*	**3,141**	*3,141*	-	***3,141***
Special Fund 4: Stat. Co-op	10c	**12,995**	-	*9,417*	**12,995**	-	*9,417*	***14,212***
Special Funds FMO	10c	**1,295,203**	-	*938,553*	**815,083**	-	*590,640*	***891,393***
Building fund	10d	**330,574**	-	*239,547*	**495,861**	-	*359,320*	***542,286***
Reserve Funds	10e	**1,182,705**	*763,658*	*303,658*	**1,213,156**	*814,278*	*289,042*	***1,250,500***
		4,148,526	*911,686*	*2,345,536*	**4,027,144**	*1,518,989*	*1,817,504*	***4,261,966***
Long-term liabilities								
Provision for programmes	11b	**1,123,303**	-	*813,987*	**1,123,303**	-	*813,987*	***1,228,470***
Provision for repatriation	11a	**1,285,826**	*440,730*	*612,388*	**1,176,360**	*412,733*	*553,353*	***1,247,854***
Provision for repatriation FMO	11a	**732,816**	-	*531,026*	**562,444**	-	*407,568*	***615,102***
Other long-term liabilities		**33,712**	-	*24,429*	**35,604**	-	*25,800*	***38,937***
		3,175,656	*440,730*	*1,981,830*	**2,897,711**	*412,733*	*1,800,708*	***3,130,362***
Total liabilities		**7,324,182**	***1,352,417***	***4,327,366***	**6,924,855**	***1,931,722***	***3,618,213***	***7,392,328***
Exchange rate differences					**47,972**			
NET ASSETS / Surplus Account	13	**3,317,789**			**2,117,677**			**2,117,677**

Statement of Comprehensive Income

Financial year ending:	Note	31/12/2011	31/12/2010
		CHF	CHF
Member States' contribution		23,654,107	25,015,389
Other income:			
Part I		751,549	953,645
Part II		-	-
Total income		**24,405,656**	**25,969,034**
Expenditure			
Part I		20,602,431	21,856,676
Part II		2,303,976	2,789,780
Total expenditure		**22,906,407**	**24,646,456**
Net result before financial items		**1,499,249**	**1,322,578**
Interest income	14	101,760	76,314
Exchange gains/(losses) realised		(75)	(7,899)
Exchange gains/(losses) on intercompany balances, unrealised		-	14,939
Interest expense		(35)	(58)
Bank charges		(21,832)	(22,915)
Write-off		862	23,600
Total financial items		**80,679**	**83,981**
Surplus/(deficit) for the year		**1,579,929**	**1,406,559**
Opening Surplus Account	13	2,117,677	1,837,562
Exchange difference on Surplus Account	13	(47,972)	7,038
Amount transferred (to)/from Surplus Account	13	(362,296)	(1,111,362)
Amount transferred (to)/from Reserve Funds	10e	30,450	(22,120)
Closing Surplus Account		**3,317,789**	**2,117,677**

Statement of Changes in Equity-Like Funds

Financial year ending 31 December 2011

	Member States' Surplus Accounts	Reserve Funds	Total Surplus Accounts and Reserve Funds
31 December 2010	2,117,677	1,250,500	3,368,177
Exchange rate difference	-47,972	-37,344	-85,317
Returned to Member States in 2011	-362,296	-	-362,296
Profit for the year	1,610,379	-30,450	1,579,929
31 December 2011	**3,317,789**	**1,182,705**	**4,500,494**

See notes 0e and **Error! Reference source not found.**.

Statement of Cash Flow

Financial year ending:	Note	31/12/2011		31/12/2010	
Cash flow from operating activities					
Surplus/(deficit) for the year		1,579,929		1,406,559	
Adjustments for:					
Depreciation (excluding fitting-out of offices Brussels)	7	269,030		299,051	
Depreciation FMO	7	185,369		130,016	
Increase (decrease) in provision for repatriation	11a	109,465		102,455	
Increase (decrease) in provision for repatriation FMO	11a	170,372		248,171	
Interest income	14	(101,760)		(76,314)	
Surplus before working capital changes		2,212,405		2,109,938	
Decrease (increase) in current receivables	5	(25,998)		(779,795)	
Decrease (increase) in long-term receivables	5	(100)		(54,208)	
Increase (decrease) in payables	10	(247,300)		251,101	
Increase (decrease) in unearned revenues	10	84,298		(67,676)	
Increase (decrease) in long-term payables	11	(1,892)		-	
Increase (decrease) in Special Funds	10	480,121		1,009,552	
Increase (decrease) in provision for programmes	11	-		19,373	
Net cash from (used in) operating activities			**2,501,534**		**2,488,285**
Cash flow from investing activities					
Purchase of property, plant and equipment	7	(195,997)		(263,925)	
Purchase of property, plant and equipment FMO	7	(550,755)		(56,944)	
Interest income	14	101,760		76,314	
Net cash from (used in) investing activities			**(644,992)**		**(244,555)**
Cash flow from financing activities					
Member States' contribution transfer from Surplus Account	13	(362,296)		(1,111,362)	
Net cash from (used in) financing activities			**(362,296)**		**(1,111,362)**
Net increase in cash and cash equivalents			**1,494,246**		**1,132,368**
Cash and cash equivalents at the beginning of the period			**6,903,816**		**5,738,453**
Exchange rate adjustment of cash			(328,599)		**67,307**
Exchange rate adjustment of intercompany balance beg. of year					(47,880)
Exchange rate adjustment of surplus and Reserve Funds					13,568
Total Exchange rate adjustments			(328,599)		32,995
Cash and cash equivalents at the end of the period			**8,069,463**		**6,903,816**

Notes to the financial statements

1 Reporting entity

These financial statements of the EFTA Secretariat concern its operations in Geneva (headquarters), Brussels and Luxembourg. The assets and liabilities of the Financial Mechanism Office (FMO) in Brussels, which is administratively part of the EFTA Secretariat, are included, but its income and expenditure are excluded.

2 Basis of preparation, significant accounting policies, and determination of fair values

The significant accounting polices adopted in the preparation of these financial statements of the EFTA Secretariat are set out below:

a) Basis of preparation

The financial statements of the Association have been prepared in accordance with the accounting standards of the present Financial Regulations and Rules of the Association. The statements have been prepared under the historical cost system and are prepared in Swiss francs (CHF).

The present Financial Regulations and Rules were approved by the EFTA Council on 18 December 1997 and entered into force on 31 December 1997. Since then there have been three amendments. The first amendment, made in 2002, concerned part VII – Audit and approval of the accounts, and the second amendment, made in 2004, concerned parts I, II, III and IV. The second amendment was done as a natural consequence of the introduction of the new budgeting method. The third amendment was made in 2009 and related to the streamlining of the approval process of financial commitments.

In line with the Financial Regulations, the statements shall be prepared according to the international accounting standards (IFRS/IAS).

b) Changes in accounting policies

There have been no changes in accounting policies since the year 2010.

c) Principles of combined statements

The accounting policies have been consistently applied by the two duty stations of the Association, i.e. Geneva and Brussels (including four staff members and two national experts in Luxembourg). All balances and transactions between the duty stations have been eliminated.

d) Fixed assets

Assets are stated at their acquisition cost less depreciation using the straight-line depreciation method over their estimated useful lives. Expenditure on repairs or maintenance (leased buildings, computers, furniture, cars, etc), made to restore or maintain future economic benefits expected from the assets, is recognised as an expense when incurred, while improvements are capitalised in line with other fixed assets.

The fixed assets recognised at 31 December 2011 are the three EFTA cars in Geneva and Brussels, various IT and non-IT equipment (furniture and infrastructure installations), the fitting out of the new office premises in Brussels for the Secretariat and the FMO, as well as assets for the FMO, which is administratively part of the EFTA Secretariat. The rates of depreciation used are as follows:

Vehicles:	20%
IT equipment:	33%
Other equipment:	20%
Fitting out of offices EFTA:	11.11% (9 years – length of the original lease contract)
Fitting out of offices FMO:	16.67% (6 years – length of the original lease contract)

The assets have been depreciated from the date of acquisition (see also note 6).
For the fitting out of offices the actual date of relocation to the premises has been used.

e) Foreign currency

(i) Transactions

All transactions are booked in EUR (Brussels) and CHF (Geneva). All exchange rate differences are identified immediately. For reporting reasons any transactions between the duty stations are converted at the rate of exchange used for establishing the budget, EUR 1 = CHF 1.38.

(ii) Translation of financial statements

The operations of foreign duty stations of the Association are considered an integral part of EFTA's operations. Accordingly, assets and liabilities at foreign duty stations are translated at the rate of exchange used for the budget: 1.38. Both the opening balance (1 January 2011) and the closing balance (31 December 2011) have been converted to CHF using the rate of exchange for the budget. This amounts to revaluing net assets in the Brussels entity (the Member States' surplus account), based on the new exchange rate. Due to the strengthening of the Swiss franc, the result of this is an exchange loss of CHF 47,972 which is shown in the Statement of Comprehensive Income as Exchange Difference on Surplus Account.

f) Taxation

The Association is exempt from most taxes at all duty stations (see note 2). Taxes payable and non-recoverable are expensed directly with the goods and services received if the amount is CHF 100 (Switzerland) or EUR 100 (Belgium/Luxembourg) or less, while invoices exceeding CHF 100 or EUR 100 are recovered directly through the supplier. Historically two types of taxes have been paid in Brussels in relation to rented real estate, i.e. a federal tax (précompte immobilier) and a regional tax. A third tax has now been added, as the commune in which the Association's offices are located, Ville de Bruxelles, has decided to levy a communal tax on office space in the years 2011 and 2012.

Swiss withholding taxes are fully recoverable and are therefore recorded separately among debtors.

g) Inventories

Inventories are not recorded in the accounts; however lists of equipment and furniture are maintained.

h) Leased assets

Leases of equipment under which the Association assumes substantially all risks and rewards incidental to ownership are classified as finance leases. Such equipment has historically consisted of computers, photocopiers and fax machines but currently the Association has no finance leases. Other leases are classified as operating leases which concern office space and office equipment.

i) Revenue recognition

Contributions from Member States are recognised on an accrual basis in accordance with the budget. Contributions made in euros during the year are recognised at the exchange rate of the budget.

In relation to both the sale of goods and the rendering of services, revenue is recognised at the delivery date of the goods or services.

j) Fair value

The fair values of cash, trade receivable, trade payables, loans and borrowing are the same as their carrying amounts.

3 Financial risk management

The financial assets of the Association consist mainly of cash and trade receivables. The financial liabilities of the Association are trade payables.

a) Interest rate risk

No loans were outstanding at 31 December 2011.

b) Credit risk

Cash is placed with international banks with high credit ratings, see note 0. Calls for funds are made quarterly. Credit risk on receivables is limited as the Association's debtors are usually national or international organisations

c) Hedges of anticipated future transactions – foreign exchange risk

At the end of the current year the Association was not a party to any forward currency contract and no such contracts were entered into during the year.

4 Cash and cash equivalents

Bank	31/12/2011 EUR balance	31/12/2011 CHF balance	31/12/2011 CHF cons.	31/12/2010 EUR balance	31/12/2010 CHF balance	31/12/2010 CHF cons. 2011 rate
UBS - CHF	-	509,596	509,596	-	162,115	162,115
PostFinance - CHF	-	6,325	6,325	-	5,348	5,348
Swiss National Bank - CHF	-	2,982,983	2,982,983	-	2,894,418	2,894,418
Other - CHF	-	3,938	3,938	-	3,535	3,535
ING - EUR	3,307,411	-	4,564,227	2,541,307	-	3,835,341
Other - EUR	1,735	-	2,394	2,027	-	3,059
	3,309,146	3,502,842	8,069,463	2,543,334	3,065,416	6,903,816

The long-term obligations credit ratings as per Moody's[2] are Aa3 both for UBS AG Switzerland and ING Belgium SA.

5 Receivables

Receivables 31 December	31/12/2011 Cons. CHF	31/12/2011 *Geneva CHF*	31/12/2011 *Brussels EUR*	31/12/2010 Cons. CHF *2011 rate*	31/12/2010 *Geneva CHF*	31/12/2010 *Brussels EUR*	31/12/2010 Cons. CHF *2010 rate*
Current							
Accounts receivable – normal operations	65,079	*762*	*46,607*	103,216	*478*	*74,448*	112,835
Accounts receivable – savings fund	194,601	*194,601*	-	-	-	-	-
Advances and loans to staff members	18,157	-	*13,157*	24,133	*8,600*	*11,255*	25,587
Receivables from Member States	-	-	-	-	-	-	-
Prepaid expenses	955,537	*216,330*	*535,657*	1,080,027	*223,070*	*620,983*	1,160,258
	1,233,374	*411,693*	*595,421*	1,207,376	*232,148*	*706,687*	1,298,680
Long-term							
Guarantee deposits	83,367	*30,647*	*38,203*	83,267	*30,545*	*38,205*	88,203

6 Inventories

Lists of equipment and furniture are maintained, but the aggregate balance at 31 December 2011 of items costing less than CHF 1,500 / EUR 1,000 is not recorded among assets. These items have already been expensed in previous years.

[2] Moody's Investor Service, www.moodys.com, 20 March 2012.

7 Fixed assets

The carrying value of property and equipment is calculated as follows:

2011	Vehicles		IT		Other		Total
Cost	***Geneva (CHF)***	***Brussels (EUR)***	***Geneva (CHF)***	***Brussels (EUR)***	***Geneva (CHF)***	***Brussels (EUR)***	***Consolidated (CHF)***
At 1/1	77,787	41,704	608,572	1,180,681	579,988	302,925	3,568,343
2011 exchange rate	-	-	-	-	-	-	-197,070
Additions	-	-	12,513	111,936	6,301	16,458	195,997
Disposals	-	-	-	-	-	-	-
Cost at 31/12	77,787	41,704	621,085	1,292,617	586,289	319,382	3,567,271
Accumulated depr.							
At 1/1	60,532	37,212	550,227	1,003,680	494,666	260,153	3,068,963
2011 exchange rate	-	-	-	-	-	-	-168,095
Depr for year	15,557	4,492	34,883	114,651	28,723	18,442	269,030
Disposals	-	-	-	-	-	-	-
Acc. depr. 31/12	76,089	41,704	585,110	1,118,332	523,389	278,595	3,169,899
NBV at year end	**1,698**	**-**	**35,974**	**174,285**	**62,899**	**40,788**	**397,372**

The carrying value of equipment for the FMO is calculated as follows:

2011	FMO BRU (CHF)	FMO BRU (EUR)
Opening carrying value	162,434	117,706
Additions	550,755	399,098
Disposals	-	-
Depreciation	185,369	134,325
Closing carrying value	**527,820**	**382,479**

The carrying value of the fitting out of office premises in Brussels is calculated as follows:

2011	Building BRU (CHF)	Building BRU (EUR)
Opening carrying value	495,861	359,320
Additions	-	-
Disposals	-	-
Depreciation	165,287	119,773
Closing carrying value	**330,574**	**239,547**

8 Finance leases

The Association is not a party to any lease agreement that can be classified as a finance lease and does therefore not recognise any asset or liability in connection with its leases. For operating leases, see note 0.

9 Intangible assets

There are no intangible assets recognised in the accounts of the Association.

10 Current liabilities

Payables 31 December	31/12/2011			31/12/2010			
	Cons. CHF	Geneva CHF	Brussels EUR	Cons. CHF 2011 rate	Geneva CHF	Brussels euros	Cons. CHF
Accounts payable - normal operations	754,300	138,919	445,928	635,926	289,794	250,820	668,332
Accounts payable - savings fund	-	-	-	386,776	386,776	-	386,776
Provisions	485,308	6,483	346,975	464,206	25,000	318,265	505,326
Due to Member States	-	-	-	-	-	-	-
Unearned revenues (prepayments received)	87,439	2,627	61,458	3,141	3,141	-	3,141
Special Fund 1: Financial Instrument / Mechanism	106,706	-	77,323	217,601	-	157,682	237,973
Special Fund 4: Statistical Cooperation	12,995	-	9,417	12,995	-	9,417	14,212
Special Funds: EEA Financial Mechanisms 2004-2014	676,954	-	490,547	328,476	-	238,026	359,229
Special Funds: Norwegian Financial Mechanisms 2004-2014	511,544	-	370,684	269,006	-	194,932	294,191
Building Funds	330,574	-	239,547	495,861	-	359,320	542,286
Reserve Funds	1,182,705	763,658	303,658	1,213,156	814,278	289,042	1,250,500
Total	4,148,526	911,686	2,345,536	4,027,144	1,518,989	1,817,504	4,261,966

a) Provisions

A provision of CHF 23,000 has been made for the estimated International Labour Organization (ILO) court costs (paid by the Association, irrespective of the outcome of the case) relating to the case of a former staff member referred to in note 0. Otherwise, provisions are mainly relating to the publishing and external translation costs of documents originating in the current year or before, but not yet published or translated. These documents include legal acts adopted by the EEA Joint Committee and documents from the EFTA Surveillance Authority and the EFTA Court.

b) Unearned revenues

The unearned revenues consist of payments of pensioners' medical insurance received by the Association in 2011 but relating to 2012, and an early payment of funds for 2012 by Member States.

c) Special Funds

In accordance with the Financial Regulation and Rules, the Secretariat reports on the status of the Special Funds as at 31 December of each year. At present, there are four Special Funds in EFTA's accounts:

1. Special Fund: Financial Instrument/Mechanism

Net assets on 31/12/2011:	CHF 106,706 / EUR 77,323 (CHF 237,973 / EUR 157,682 in 2010)
Legal basis:	Decisions of the Financial Instrument/Mechanism Committee based on a budget proposal of the EFTA Secretariat and approved by the European Commission.
Operational procedures:	EFTA operates the office for the Financial Mechanism Liaison Officer and his assistant. EFTA sends invoices to the European Investment Bank in Luxembourg in accordance with the approved budget.
Establishing date:	1 July 1995
Comments:	Net assets have been evaluated at the date of the Balance Sheet. The balance belongs to the EEA EFTA Member States and the European Commission.

2. Special Fund: Statistical Cooperation

Net assets on 31/12/2011:	CHF 12,995 / EUR 9,417 (CHF 14,212 / EUR 9,417 in 2010)
Legal basis:	Article 82(1) (a) of the EEA Agreement; Budget line B-5600 and Point 5 of Protocol 30 of the EEA Agreement. Exchange of letters between Eurostat and the EFTA Secretariat establishing a mechanism to remove this particular matter from the general EU programmes.
Operational procedures:	This fund was not used in the period 2008-2009. On 15 May 2009 the Working Group of the Heads of the EFTA National Statistical Institutes agreed that the then remaining balance should be used for activities and projects concerning EFTA seconded national experts to Eurostat and that the EFTA Statistical Office would administer the fund.
Establishing date:	1 July 1995
Comments:	The balance belongs to the EEA EFTA Member States.

3. Special Fund: EEA Financial Mechanisms 2004-2014

Net assets on 31/12/2011:	CHF 676,954 / EUR 490,547 (CHF 359,229 / EUR 238,026 in 2010)
Legal basis:	Decisions of the Standing Committee of the EFTA States no. 1/2004/SC of 5 February 2004 and no. 6/2010/SC of 9 December 2010.
Operational procedures:	The EFTA Secretariat carries out administrative functions for the FMO based on a service agreement. The budget of the FMO is approved by the Financial Mechanism Committee.
Establishing date:	1 May 2004
Comments:	The balance belongs to the EEA EFTA Member States. The above balance is the total of two funds: a) the fund for 2004-2009 and b) the fund for 2009-2014.

4. Special Fund: Norwegian Financial Mechanisms 2004-2014

Net assets on 31/12/2011:	CHF 511,544 / EUR 370,684 (CHF 294,191/ EUR 194,932 in 2010)
Legal basis:	Decisions of the Standing Committee of the EFTA States no. 1/2004/SC of 5 February 2004 and no. 6/2010/SC of 9 December 2010.
Operational procedures:	The EFTA Secretariat carries out administrative functions for the FMO based on a service agreement. The budget of the FMO is approved by the Financial Mechanism Committee.
Establishing date:	1 May 2004
Comments:	The balance belongs to Norway. The above balance is the total of two funds: a) the fund for 2004-2009 and b) the fund for 2009-2014.

d) Building fund

The status of the building fund is as follows:

Source	ICE (EUR)	LIE (EUR)	NOR (EUR)	SWI (EUR)	TOTAL (EUR)	Balance (EUR)	Balance (CHF)
Transferred from Surplus Fund	6,393	1,576	67,946	153,235	229,150		
Paid by Member States in 2004	40,600	9,741	-	332,323	382,664	611,814	
Paid by Member States in 2005	-	-	466,007	-	466,007	1,077,821	
Out of the fund 2005	-5,221	-1,257	-59,328	-53,951	-119,758	958,063	
Out of the fund 2006	-5,221	-1,257	-59,328	-53,951	-119,758	838,305	
Out of the fund 2007	-5,221	-1,257	-59,328	-53,951	-119,758	718,547	
Out of the fund 2008	-5,218	-1,257	-59,290	-53,916	-119,681	598,867	
Out of the fund 2009	-5,222	-1,258	-53,958	-59,336	-119,773	479,093	
Out of the fund 2010	-5,222	-1,258	-53,958	-59,336	-119,773	359,320	
Out of the fund 2011	-5,222	-1,258	-53,958	-59,336	-119,773	239,547	330,574
Total	10,444	2,515	134,805	91,782	239,547		

e) Reserve Funds Part I and Part II

In accordance with Financial Regulation 10, budgetary surpluses for Part I and Part II not exceeding 5% of the budget for that Part shall be transferred to the Reserve Funds for Part I and Part II respectively. Surpluses exceeding 5% shall be transferred to the Surplus Account pending a decision by the Council on their use. Deficits are covered by transfers from the respective Reserve Funds.

As of 2009 the Reserve Funds have been kept in EUR as well as in CHF. Due to the weakening of the Euro against the Swiss franc, the consolidated balance of the Reserve Funds, is reduced from 2010 to 2011 to keep it at its maximum level of 5% of the budget. The excess funds are transferred along with the remainder of the 2011 surplus to the Member States' surplus account, see note **Error! Reference source not found.**.

	Reserve Fund Part I	Reserve Fund Part II	Total	Consolidated CHF*

Source	CHF	EUR	CHF	EUR	CHF	EUR	Total cons.	Balance cons.
Surplus 2004	710,331	-	137,681	-	848,012	-	848,012	848,012
Out of fund 2005	-129,137	-	-	-	-129,137	-	-129,137	718,875
Surplus 2005	184,270	-	22,467	-	206,737	-	206,737	925,612
Out of fund 2006	-19,712	-	-	-	-19,712	-	-19,712	905,900
Surplus 2006	166	-	4,166	-	4,332	-	4,332	910,232
Out of fund 2007	-459,000	-	-70,000	-	-529,000	-	-529,000	381,232
Surplus 2007	742,412	-	4,193	-	746,605	-	746,605	1,127,837
Surplus 2008	-	-	75,493	-	75,493	-	75,493	1,203,330
Out of fund 2008	-339,299	-	-	-	-339,299	-	-339,299	864,031
Surplus 2009	-36,205	270,550	-13,548	3,836	-49,753	274,386	357,819	1,221,850
2010 exch. rate	-	-	-	-	-	-	6,530	1,228,380
Surplus 2010	-	14,319	-	337	-	14,657	22,120	1,250,500
2011 exch. rate	-	-	-	-	-	-	-37,344	1,213,156
Surplus 2011	-19,890	-	-30,731	14,616	-50,620	14,616	-30,450	1,182,705
Total	**633,936**	**284,869**	**129,721**	**18,789**	**763,658**	**303,658**	**1,182,705**	
Total in CHF (5% of budget)	1,027,055		155,650		1,182,705			
Budget	20,541,107		3,113,000				23,654,107	

* Consolidated total and consolidated balance are shown at that year's exchange rate.

11 Long-term payables and provisions

a) Provision for resettlement of non-locally recruited staff

The Association has a contractual obligation to all non-locally recruited staff to pay a resettlement allowance and removal expenses at the end of their term of service. Based on the present Staff Regulations and Rules, the cost of each staff member has been estimated and provisions recorded assuming an average lifetime of four years in EFTA. Resettlement provision for FMO staff is also calculated (first calculated in 2008); see separate line in the balance sheet.

Resettlement provision:

2011	Consolidated CHF	Geneva CHF	Brussels EUR	Consolidated 2010
Opening carrying value	1,176,360	412,731	553,354	1,145,398
Into the fund	314,262	127,648	135,228	349,792
Out of the fund	-204,797	-99,651	-76,193	-247,337
Closing carrying value	**1,285,825**	**440,728**	**612,389**	**1,247,853**

The provision calculated for FMO staff is as follows:

FMO 2011	CHF	EUR	EUR 2010
Opening carrying value	562,443	407,568	243,129
Into the fund	253,488	183,687	179,307
Out of the fund	-83,115	-60,229	-14,868
Closing carrying value	**732,815**	**531,026**	**407,568**

b) Provision for cooperation programmes (Part II Fund)

The Association has entered into a number of long-term commitments related to cooperation programmes in Part II of the EFTA Budget, including standardisation and technical cooperation in the field of statistics. These commitments are not reported as liabilities in the statements but expensed in the period of execution of the relevant services.

The carrying value of EFTA standardisation commitments is estimated at CHF 3,186,009 (EUR 2,308,702) at 31 December 2011 (CHF 2,505,099 / EUR 1,659,885 in 2010).

In order to make provisions to cover the commitments under Part II, the EFTA Council, on 28 May 1999, established a Part II Fund (ref. 28192). Its purpose is to meet long-term commitments related to cooperation programmes in Part II of the EFTA Budget, including standardisation, as well as to provide a buffer should disbursements accelerate in any one year beyond budgetary planning. During the year 2011, no funds were transferred to or from the Fund. In light of the fact that all said long-term commitments are denominated in EUR, the Fund is denominated in EUR as of 2010.

2011	**Geneva CHF**	**Brussels CHF**	**Brussels EUR**	**Total EFTA**
Opening carrying value	-	1,228,470	813,987	1,228,470
New exchange rate	-	-105,167	-	-105,167
Into the Fund	-	-	-	-
Out of the Fund	-	-	-	-
Closing carrying value	**-**	**1,123,303**	**813,987**	**1,123,303**

12 Loans and borrowing

No loans were taken in 2011.

13 Surplus account

a) Adjustment to opening surplus

No corrections were made to the opening surplus brought forward from 31 December 2010.

b) Transactions in current year

The respective surplus balances resulting from 2009 were paid back to Liechtenstein and Norway (shown in the table below), while for Iceland and Switzerland they were deducted from the first call for funds of 2012 (not shown in the table below as this transaction belongs to 2012). The current balances relate only to operations in 2010 and 2011.

b) Distribution keys

The EFTA Council determines the distribution keys. For the period 1 July 1995 to 31 December 2011, the keys are as follows:

Distribution keys of EFTA Member States

	Iceland %	Liechtenstein %	Norway %	Switzerland %	
1995: All	4.37	1.27	43.37	50.99	100.00
1995: EEA	8.92	2.59	88.49	-	100.00
1996: All	4.28	1.23	44.1	50.39	100.00
1996: EEA	8.63	2.48	88.89	-	100.00
1997: All	4.08	1.25	43.92	50.75	100.00
1997: EEA	8.28	2.54	89.18	-	100.00
1998: All	3.79	1.26	44.26	50.69	100.00
1998: EEA	7.69	2.55	89.76	-	100.00
1999: All	3.68	1.26	44.58	50.48	100.00
1999: EEA	7.43	2.55	90.02	-	100.00
2000: All	3.73	1.19	46.13	48.95	100.00
2000: EEA	7.31	2.33	90.36	-	100.00
2001: All	4.2	1.14	46.94	47.72	100.00
2001: EEA	5.09	0.72	94.19	-	100.00
2002: All	4.47	1.12	47.3	47.11	100.00
2002: EEA	5.16	0.71	94.14	-	100.01
2003: All	4.5	1.08	48.17	46.25	100.00
2003: EEA	4.69	0.66	94.65	-	100.00
2004: All	4.36	1.05	49.54	45.05	100.00
2004: EEA	4.43	0.63	94.94	-	100.00
2005: All	4.14	1.03	50.58	44.25	100.00
2005: EEA	4.36	0.64	95	-	100.00
2006: All	4.03	1.02	51.49	43.46	100.00
2006: EEA	4.52	0.64	94.84	-	100.00
2007: All	4.24	1.01	52.31	42.44	100.00
2007: EEA	4.84	1.01	94.15	-	100.00
2008: All	4.59	0.97	53.00	41.44	100.00
2008: EEA	4.84	0.97	94.19	-	100.00
2009: All	4.71	0.92	54.18	40.19	100.00
2009: EEA	4.84	1.02	94.14	-	100.00
2010: All	4.84	0.87	55.74	38.55	100.00
2010: EEA	3.17	1.08	95.75	-	100.00
2011: All	**4.35**	**0.86**	**56.58**	**38.21**	**100.00**
2011: EEA	**3.05**	**1.22**	**95.73**	**-**	**100.00**

Member States' balance

Based on the aforementioned keys, the status on the balance sheet of the accounts of Member States within the Association is as follows:

	Iceland		Liechtenstein		Norway		Switzerland		TOTAL			BALANCE		
Source	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**CHF**	**EUR**	**CONS.***	**CHF**	**EUR**	**CONS.***
Surplus Part I 2004														
Surplus Part II 2004	14,424		3,474		163,889		149,035		330,822		330,822	330,822		
Returned to Member States 2004					-81,945				-81,945		-81,945	248,878		
Transfer to Part II Fund 2004	-7,212		-1,737		-81,944		-74,518		-165,411		-165,411	83,467		
Surplus Part I 2005												83,467		
Surplus Part II 2005	22,008		5,475		268,882		235,232		531,598		531,598	615,065		
Returned to MS, rent comp FMO	1,592		225		33,406				35,224		35,224	650,289		
Transfer to Part II Fund 2005	-4,140		-1,030		-50,580		-44,250		-100,000		-100,000	550,289		
Surplus Part I 2006												550,289		
Surplus Part II 2006	11,824		2,993		151,073		127,512		293,402		293,402	843,690		
Returned to Member States 2007	-7,212								-7,212		-7,212	836,478		
Surplus Part I 2007	8,325		1,983		102,708		83,328		196,344		196,344	1,032,822		
Surplus Part II 2007												1,032,822		
Returned to Member States 2008					-251,708				-251,708		-251,708	781,114		
FIPOI 2007 Invoice	-871		-208		-10,747		-8,720		-20,546		-20,546	760,568		
Surplus Part I 2008												760,568		
Surplus Part II 2008	16,101	-	3,403	-	185,921	-	145,369	-	350,795	-	350,795	1,111,363	-	-
Surplus Part I 2009, restated	-4,975	4,405	-972	860	-57,234	50,666	-42,455	37,583	-105,637	93,514	33,269	1,005,726	93,514	1,144,633
Surplus Part II 2009, restated	18,490	9,524	3,612	1,860	212,697	109,554	157,776	81,266	392,575	202,204	692,930	1,398,302	295,718	1,837,562
2010 exch. rate											7,038	1,398,302	295,718	1,844,600
Returned to Member States 2010	-54,840		-14,577		-428,956		-612,989		-1,111,362		-1,111,362	286,940	295,718	733,238
ILO costs reallocation		448		-68		-14,908		14,528				286,940	295,718	733,238
Surplus Part I 2010	35,811	3,029	6,437	544	412,422	34,883	285,233	24,125	739,903	62,581	834,350	1,026,843	358,300	1,567,588
Surplus Part II 2010	25,675	629	4,615	113	295,681	7,248	204,494	5,013	530,465	13,003	550,089	1,557,308	371,302	2,117,677
2011 exch. rate											-47,972	1,557,308	371,302	2,069,705
Returned to Member States 2011			-2,641	-2,653	-155,463	-145,312			-158,104	-147,965	-362,296	1,399,204	223,338	1,707,409
Surplus Part I 2011	37,313	-2,111	7,377	-417	485,328	-27,462	327,755	-18,546	857,774	-48,536	790,794	2,256,977	174,802	2,498,204
Surplus Part II 2011	18,982	12,080	3,753	2,388	246,892	157,123	166,733	106,109	436,359	277,700	819,585	2,693,336	452,502	3,317,789
Total	**131,295**	**28,003**	**22,182**	**2,628**	**1,440,323**	**171,792**	**1,099,536**	**250,079**	**2,693,336**	**452,502**	**3,317,789**			

* Consolidated total and consolidated balance are shown at that year's exchange rate.
** The negative EUR amounts are due to a deficit on the EUR entity.

14 Financial items

Interest income derives from deposits of the contributions from the Member States. Since June 2008 contributions for the FMO have been placed in separate bank accounts. Regular transfers are made from these bank accounts to meet the payments made in relation to the FMO. Interest on the FMO bank accounts is credited as income for the FMO.

15 Taxation

Headquarters Agreements in Switzerland, Belgium, and Luxembourg grant tax exemptions for normal activities with the following exceptions:

Three types of local taxes for the office building in Brussels have to be paid (see note 0. The amounts for the current year are EUR 62,241 / CHF 85,893 (60,944 / 91,977 in 2010) for real estate tax, EUR 18,757 / CHF 25,885 (18,084 / 27,292 in 2010) for regional tax and EUR 37,512 / CHF 51,767 for communal tax.

Value added tax is paid on invoices of less than EUR 100 in Belgium and Luxembourg. Purchases of higher amounts are tax exempt.

16 Operating leases

The Association leases its office space in Geneva, Brussels and Luxembourg, and some office equipment.

In 2011 the lease for the offices in Brussels was renewed. The new lease, which starts at the termination of the current lease, i.e. on 1 December 2013, runs for six years, but will be prolonged for another three years if neither party terminates the lease six months before the end of the six-year period. Both the current lease and the new lease contain a “diplomatic clause” allowing for earlier termination under certain conditions.

The lease in Geneva is automatically renewed every five years if not terminated one year before the end of the relevant five-year period. The current period ends on 30 June 2015. The lease contains a “diplomatic clause” allowing for earlier termination under certain conditions.
The lease in Luxembourg is automatically renewed every three years if not terminated six months before the end of the relevant three-year period. The current period ends on 5 May 2014.

The total amount of the Association’s future minimum lease payments (not taking into account any “diplomatic clauses”) is as follows:

Not later than one year	1,236,806
Later than one year and not later than five years	3,998,504
Later than five years	2,368,978
Total	7,604,288

The Association is not a party to any finance leases (see note 0).

17 Other unrecognised contractual commitments

Various commitments have been made in respect of cooperation programmes (Part II). The carrying value of EFTA standardisation commitments is estimated at CHF 3,186,009 / EUR 2,308,702 at 31 December 2011 (CHF 2,505,099 / EUR 1,659,885 in 2010). See also note **Error! Reference source not found.**.

18 Contingent liabilities

No known claims or possible claims exist apart from the following: A staff member, dismissed in 2009, has brought a claim for financial compensation before the ILO Tribunal. The case is expected to be decided in 2012. The majority of the Association's Internal Advisory Board has already rendered an opinion favourable to the Association. The Association does not believe that the claim has merit, is defending itself vigorously and does not expect any significant financial effects from the judgment. For the associated legal costs, see note a).

19 Savings fund

In accordance with the Staff Regulations and Rules, a savings fund for staff is held in the name of the Association. The purpose of the savings fund is to assist staff members and their families in protecting themselves from the economic consequences of old age. The savings fund is based on defined contributions from the Association and its staff members. The savings fund is not included in the Association's financial statements. In 2011 the Association contributed CHF 1,845,156 (CHF 2,031,639 in 2010) to the savings fund.

Savings fund contributions can be kept in three currencies (CHF, EUR, and NOK). Contributions are placed with the Swiss National Bank, Nordea S.A. Luxembourg (Zurich branch) or Banca Monte Paschi Belgio.

At 31 December 2011 the balance of the savings fund (including FMO) was as follows (CHF consolidated figure is at market rate):

Balance	CHF	EUR	NOK	CHF Cons.
BMP (deposits)	-	1,872,611	-	2,276,345
SNB (deposits)	2,568,535	-	-	2,568,535
Nordea, deposits (CHF, EUR, NOK)	-	1,131,220	7,988,595	2,893,345
Nordea, bonds	-	-	-	939,421
Nordea, equities	-	-	-	635,686
Total				**9,313,333**
Total deposits				7,738,226

The long-term obligations credit ratings as per Moody's[3] for the parent companies (the local entities are not rated) of the private institutions are: Baa1 (A2 on 24 March 2011) for Banca Monte dei Paschi di Siena[4] and Aa2 (same on 24 March 2011) for Nordea Bank AB.[5] The Association does not consider itself liable for the assets of the savings fund, whether deposits or securities.

20 Subsequent events

No significant events took place after 31 December 2011.

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[3] Moody's Investor Service, www.moodys.com, 20 March 2012.

[4] Banca Monte dei Paschi di Siena holds of 99.99% of the shares of Banca Monte Paschi Belgio.

[5] Nordea Bank AB holds 99.99% of the shares of Nordea S.A. Luxembourg.

EUROPEAN FREE TRADE ASSOCIATION

THE CHAIR OF THE COUNCIL

Ref. 31172

11 July 2012

Dear Mr Hansen,

I refer to your letter dated 25 June 2012 on the audit of the 2011 accounts of the EFTA Secretariat.

The Council welcomes the positive spirit in which the audit process has taken place and takes due note of the matters raised in your letter.

As regards specific issues, the Council recalls its comments concerning the Association's liability for the Savings Fund made in its letter of 9 December 2011 (ref. 29888). The Council is further aware that the Secretariat will continue to monitor relevant market conditions and provide information to staff. Lastly, the question of suitable reporting standards for financial statements will be addressed by the Budget Committee during its upcoming discussions on the 2011 accounts.

Yours sincerely,

Chair of the EFTA Council
Kristinn F. Árnason

Mr Hans Conrad Hansen
Chairman
EFTA Board of Auditors
P.O.Box 8130-Dep.
N-0032 OSLO

cc: Mr Kåre Bryn, Secretary-General